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**The new battleground for
communication & technology:**
Business ecosystem vs. business ecosystem.
Will yours win?

By Michael Heald and Ron Ref

When digital technologies began to drive the evolution of business, organizations first looked within their own metaphorical four walls to drive relevance and competitiveness in the market. They built their own assets and capabilities to create value for customers. As they had always done.

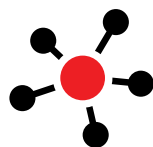
Over time, they became more interactive, creating distributed operations and partner relationships to deliver value. As digital innovation continues to change the communications and technology industry, the rise of this indirect sales channel, a channel which now drives 70 percent of revenue¹, has begun to weaken some communications and technology giants who have not fully embraced the shift digital brings.

Executive teams struggle to right the ship, as they realize transaction-based traditional alliance models no longer serve a communications and technology industry whose latest creation, the Internet of Things (IoT), deepens the impact of a platform-based landscape in which network effects multiply revenue as never before. A successful business growth strategy must include co-creation, collaboration and joint innovation. No viable product or service exists solely within the old boundaries of a traditional alliance model anymore.

Savvy channel executives look downstream to evolve collaborative partnerships beyond traditional alliances and channel relationships. They realize as their customers evolve to purchasing technology in an as-a-service, consumption-based model, they need to obsess with business outcomes and total solutions. The change in perspective brings fundamental changes in how they define, design and orchestrate their business relationships.

Enter the business ecosystem.

It is the answer to the conundrum faced by 75 percent of chief sales officers, who target more than five percent revenue growth this year, even though almost half (47%) have concerns about how to achieve that growth.² Where could that five-plus percent revenue growth come from? Friends and foes. In an ecosystem, they are the same.



Ecosystems and the indirect sales channel

Ecosystems

[ek-oh-sis-tuh m, ee-koh-]

An adaptive network of interdependent entities that grows by developing and maintaining innovative solutions and technologies through collaboration and coordination

Think entities who serve as each other's clients, competitors and business partners simultaneously. Entities who bond as a unit to play upon each other's strengths, continuously adapting to emerging customer needs through a common interface.

Case in point: Cloud market leaders. They envision a platform that can enable multiple markets, customers and processes, achieving a wide berth. While pursuing the broad market opportunity, some market leaders have chosen instead to

focus on select target markets with their best-of-breed solutions. They are developing a bond between IT and line of business customers, channel partners and direct sellers.

Success breeds success as customers gravitate to the platform. Channel partners are rewarded, affirming their belief in and contribution to the platform. Competitors are attracted to the critical mass that forms. Partners and customers innovate, unleashing value in unforeseen ways as they hone their value proposition. The network effect takes hold and an ecosystem is born.

Ecosystems provide for a managed, yet open, innovation strategy in which co-innovators could be competitors, suppliers or even customers. In this ecosystem-centric world, Apple Inc. and Amazon.com, Inc., who compete fiercely for their customers' spend, instead make it easier to access each other's loyal followers (while still competing). Amazon releases a version of its Kindle™ Reader on Apple's iPad®, allowing users to access its library of exclusive digital books. And Apple, who traditionally eschews any app that competes with its own, admits a Kindle app to its App Store®, despite its iBooks® offering.

Before hiring one of Microsoft's chief technologists as head of his infrastructure, Salesforce CEO Marc Benioff discussed the move with Satya Nadella. Nadella agreed to the switch, seeing that it would allow more co-creation. "Now we're learning about things that we could do with Microsoft's file-management technologies and Office that we would never have known on our own," Benioff explained.³

In this environment, business success depends on how effectively the ecosystem directs its combined capabilities and talent to co-create solutions and experiences that address emerging customer needs.

Add to this competitive soup that traditional competitors are not the new competitors. NBC Universal Media, LLC may compete with CBS Broadcasting Inc., but should be cautious of Netflix, Inc.

The wise insure their ecosystem is orchestrated to meet the outcomes their target customers are looking for and include the right mix of technologies, services, financing and fulfillment capabilities that complement one another—orchestrating agile relationships at warp speed.



In an ecosystem, core companies act much the same way a conductor does with an orchestra—defining how talents and capabilities are combined, adjusting pace and timing to achieve outcomes. For the communications and technology industry, that means new products and services to meet ever-changing customer desires for increased connectivity and speed.

They become brokers of capability, establishing standards that define how members connect to core platforms and interact with other members. A good broker defines the rules of engagement through supporting governance.

Amazingly, brokers of capability often bring nothing tangible to the table other than the ability to build a platform of capabilities that meets customer needs. Creators of smart phones come to the table with a device, but is a smart phone just a phone? Or is it a payment system? A social tool? A television? The answer is—all. The platform enables all of these capabilities and more, most brought by other creators of goods and services. Take Verizon Communications Inc., who has created a platform, AutoShare, which initially allows users to share cars but is intended to allow for sharing of virtually anything.⁴

Put simply: Platforms, not products, rule.

A product without a platform is a lost cause because its value lies in how well connected and integrated it is to other complementary products and services. The network effects of a platform cannot be replicated by a solo entity.

Communications and technology companies must anchor to a platform to grow. This change is key in an ecosystem versus a solo company model. Currently in industry, it is a land grab model, with many companies vying for an early leadership position, developing an ecosystem for maximum network effects. Early leadership is key. Those left behind may not be able to recover financially.

What comes with the territory?

- Continuous innovation, not just a focus on efficiency
- Dual operating models, enterprises grapple with two models simultaneously: one to maintain legacy business and another to build new
- Collaborative co-creation extending beyond traditional boundaries

Sixty percent of executives plan to engage new digital business partners within their industry over the next two years, 40 percent plan to leverage digital business partners outside their industry, and 48 percent plan to partner with digital technology and cloud platform leaders.⁵



What does winning look like?

In the company vs. company competitive model, winning was easily defined. Hit your numbers, score high with customers, eliminate less healthy competitors. Winning in an ecosystem model looks radically different. You still must hit your numbers and score high with customer but also use your competitors' strengths to your advantage, making them a part of your ecosystem.

Companies will shed the traditional business model because it lacks:

- Financial models required to pursue emerging digital markets
- Programs to address financial and operational challenges associated with shifting business models
- Operating models that foster the collaborative network mindset needed to foster innovation

Ecosystems instead embrace:

- **Co-creation.** Your most valuable workforce is no longer yours. It is a mélange of talent from different ecosystem players coming together to redefine value based on customer desires.
- **Innovation.** No longer an afterthought, but a process driver. Fifty-three percent of organizations indicate they are using an open innovation program with customers, suppliers or partners.¹⁰
- **Interdependence and dynamic roles.** A good ecosystem redefines the landscape within which new solutions are developed and consumed.
- **Adaptive environments.** Allowing entities to respond more rapidly to disruption.
- **Governance.** The rules of engagement for communication, collaboration and innovation.

The connected car platform: A revolution in the making

The connected car provides a great example of an evolving ecosystem, requiring cross-industry and competitor cooperation. By 2025, all new cars will be connected⁶, as we move fully into the Internet of Things (IoT).

Consumers want a connected car that works seamlessly with their devices. The technology will not come from car companies, whose in-house resources cannot keep up with the pace or depth of technology necessary.

For instance, Daimler's Mercedes-Benz connected car includes API connections to Nest thermostats in drivers' homes. The car notifies the thermostat when the driver will arrive, and the thermostat adjusts the in-home temperature to desired settings. Car manufacturers and a connected home utility-focused device have not previously been part of the same ecosystem, but now offer differentiation. If we extrapolate, baths could be run, ovens started, security checks completed.

Even if car manufacturers wanted to own the technology in their cars, this move may be unwise. Technology changes too quickly, while the combined average age of light vehicles in the United States is more than 11 years.⁸ Instead, original equipment manufacturers will probably act as the bundled services broker for technology updated at its source and funneled through their ecosystems.⁹



To move to these defining elements, companies might sometimes appear to cannibalize their short-term solutions to move to an as-a-Service (aaS) ecosystem model. They are transitioning from an on-premise, capital-intensive technology investment model to a cloud-based, location-agnostic, opex-focused consumption model. They trade short-term pain for anticipated long-term gain.

One high-tech storage manufacturer braved the short-term pain. As a result, it became the core company in an ecosystem of its own very deliberate making. By doing so, it achieved more than \$500 million in inorganic growth and exceeded its business case by 15 percent.



What are the smart players doing?

The digital ecosystem requires more integration than historical models. Winning ecosystems will:

- **Master digital relationships.** They will master digital relationships with their customers and ecosystem partners to bring together talent—reassessing channel players and roles while redesigning operating models to foster collaboration.
- **Ease adoption.** Smart players will reduce risks to enable partners and customers, starting small and scaling fast to create successful programs within their platform.
- **Simplify the buying experience.** Strong ecosystems will obsess over outcomes and solution benefits, focusing their ecosystems on the same goal—to grow this new market and their individual businesses.

A winning ecosystem is collaborative, able to scale fast, and solutions-focused.

Righting the ship means capitalizing on your indirect sales channel via an aaS platform you create, fueled by an ecosystem of rivals and friendlies. Ecosystem as a service, done correctly, is the growth engine of the future and the battlefield on which all players now find themselves.

Which brings us full circle to the question with which we began: Will your ecosystem win? That depends on how quickly and strategically your organization moves to adopt a new way of doing business.

Savvy leadership teams are formulating their ecosystems now, replete with a strategic vision and call to action. Has yours?

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